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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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Retailers in War of Their Own

Plagued by Recession, Mideast Turmoil U.S. Businesses Fight to Stay Alive

Nationwide DSN Report

Operation Desert Storm has cast a cloud on an already troubled retail landscape.

The outbreak of war in the Mideast has not triggered the dramatic and sudden drop in retail sales that many economists predicted. However, as the general euphoria over the prospect of a quick victory fades, a much more severe downturn in retail sales appears more and more likely.

Even a quick military victory (which seems more remote each day) would only fuel a temporary burst of consumer spending as other economic factors, notably deep-rooted problems in the banking industry and rising taxes, will work against a recovery in the near future.

Most discounters contacted by *DSN* within the first week of the Persian Gulf war said they've noticed little effect on overall sales. In fact, a top merchandising exec for a major discounter noted an increase in sales of military-related hobby kits such as helicopter and airplane models, and predicted a surge in sales of Hasbro's G.I. Joe line. Other executives cited yellow ribbons, American flags and other "red, white and blue" items as selling well.

Even though discount stores in general weathered the Christmas sales drought better than full-price retailers, the list of distressed chains grows longer each month.

Hills, the $2 billion, Canton, Mass.-based discounter, was trying to fight off bankruptcy as this issue went to press (see story, page 3). The 214-unit chain, which is attempting to renegotiate its working capital and loan repay-

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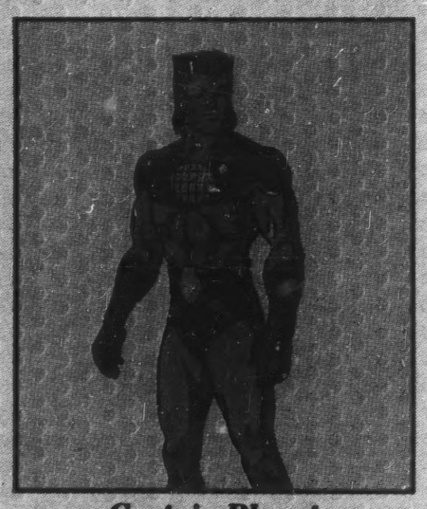

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Basics Buttressed Christmas

By Richard Halverson
Nationwide DSN Report

Although Christmas business was tough to come by for all retailers, discount stores generally enjoyed a better Christmas than did department stores, with same store sales gains ranging as high as 13%.

The recession of 1990-to-1991 is a white collar recession, with layoffs hitting white collar customers of department stores harder than the blue collar customers of discount stores, according to Dan Barry, retail analyst for Kidder Peabody in New York.

Moreover, apparel sales, the forte of department stores, were weak for reasons including abnormally warm weather that curtailed winter clothing, Barry said. Fashion factors, such as too many short skirts and a bland color palette, along with sharp price increases, also hurt apparel sales, Barry said.

Apparel accounts for 65% of department store sales, Barry said, but only 25% of discount store volume.

"It was a basics Christmas, and basics at discount stores such as simple shoes, hosiery and motor oil, sold well," he said.

Mass merchandisers in the aggregate logged

(Continued on page 85)

Refining the Toy Success Formula

You Don't Have To Be Toys 'R' Us to Succeed

By Laura Liebeck
Nationwide DSN Report

A retailer can be successful in toys even without the Toys "R" Us name. All it needs is a niche to exploit.

Operators such as Kay-Bee toy stores, with its mall focus and front-end promotional area, and Value Merchants, via its Toy Liquidator chain of first-quality overruns and discontinued merchandise, have successfully exploited formats markedly different from Toys "R" Us' warehouse program.

In addition, discounters such as Wal-Mart and Target have found success with their carefully chosen toy sku's that play off their chain's total merchandise mix.

For example, Wal-Mart and Target have found that by sacrificing margin on selected "hot" toys they draw shoppers who can be steered to higher-margin toys and to merchandise in other departments. The key, of course, is execution.

***Kay-Bee's Toy Works chain** leverages the parent company's mall store strengths in a freestanding, wider-aisle format.* (DSN photo)

"Retailers have an opportunity, with service and a narrow target consumer, to compete head on with Toys "R" Us," observed David Miller, president of the Toy Manufacturers Association, New York.

Undoubtedly, "Toys "R" Us has made it more difficult for the marginal competitor but it doesn't make it impossible," said Miller.

(Continued on page 84)

MARKETWATCH

Hayes Resigns Post at Child World

AVON, Mass. — While in the midst of negotiations to restructure a payment plan with its banks and suppliers, Child World president and ceo Peter Hayes resigned his post at the nation's second largest toy chain Jan. 24. Hayes declined to comment specifically on why he was leaving the chain or if Child World would secure the financing it needs to pay its debt which is estimated at over $300 million. Hayes did tell *DSN* that he will join "another retailer" in mid-February. Hayes joined Child World in 1988 following three years as chairman of Gold Circle stores. Prior to that, Hayes was with Hills for 16 years in several posts including vice president of merchandising, advertising and sales promotion.

Wal-Mart Opens 36 Units In One Day

BENTONVILLE, Ark. — Wal-Mart opened the greatest number of discount stores on the same day in the retailer's history when it unveiled 36 units Jan. 30. The count, which beat the old record of 35 stores opened Jan. 31, 1990, includes: Arizona, 1; California, 7; Florida, 3; Illinois, 2; Indiana, 5; Iowa, 2; Kentucky, 1; Michigan, 2; Minnesota, 1; Nevada, 2; North Carolina, 2; Ohio, 2; Pennsylvania, 2; South Dakota, 1; Wisconsin, 2, and Wyoming, 1. The openings meant that the retailer ended its fiscal year with 1,573 discount stores. Wal-Mart also signed a lease to open a 90,000-square-foot store in a shopping center under expansion in Canandaigua, in upstate New York.

HSN Adds Services for TDD Users

ST. PETERSBURG, Fla. — The Home Shopping Network has added services that will enhance the ability of visually and hearing impaired consumers to shop the teleretailer. HSN operators can now take orders from hearing impaired individuals who use Telephone Device for the Deaf (TDD) units. There are approximately two million TDD users. Coupons in HSN's *Bargaineer* quarterly magazine are now available in braille for the visually impaired.

OPA Gets Financing for Northeast Push

SAN ANTONIO, Texas — Office Products of America, operator of Office Stop office supply superstores, received a commitment for a $5 million revolving line of credit from Fremont Financial Corp., Chicago. The money will help finance the chain's Northeast expansion. The deal is subject to negotiation and execution of definitive agreements.

PLMA Honors Family Dollar, McCrory

NEW YORK — The Private Label Manufacturers Association honored Family Dollar and McCrory stores as retailers that are perfecting their private label programs. Members of the PLMA said Family Dollar, "has done more for private label merchandising than any other mass merchant over the last two years." PLMA cited the chain's quality control program and its semi-annual private label product promotion. The association also commended McCrory for its renewed private label efforts following the sale of its Bargain Time, G.C. Murphy and Culligan International stores. McCrory recently added two new bar soaps to its private label mix.

Rose's to Close 25 Stores

HENDERSON, N.C. — Rose's Stores said it would close 25 of its stores in the next six months after revealing income levels far below those projected for the year. After the closings, the chain will number 234 stores. The stores being closed were among the worst performers in the chain, Rose's said. In addition, David Rose, who was chief administrative officer and senior vice president, has left the firm.

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Kmart's New Buying Structure Keeps Decision-Makers Focused

TROY, Mich. — Kmart's reorganization of its hard lines merchandising division has eliminated a layer of management, streamlined the approval process and pushed decision-making down to a lower level.

In an interview with *DSN* at the chain's headquarters last month, William Underwood, senior vp of general merchandise, and David Schuvie, vp of merchandising, said the new buying structure will enable Kmart buyers to "listen better today and better understand the corporate direction."

As reported exclusively in *DSN* (Jan. 7, 1991, page 3), the merchandising division has been divided among four divisional merchandise managers with 12 senior buyers, a consolidation from six divisionals and 27 senior buyers. However, Underwood pointed out that the restructuring has not resulted in a reduction in merchandising personnel. Quite the opposite. Kmart actually added 12 new buyers in recent months.

"After all the emphasis we've placed and money we've spent on central merchandising, we would be wrong not to have the proper management structure in place," said Underwood.

Centralized merchandising enables Kmart to replenish merchandise at its store from headquarters using computerized point-of-sale and satellite technology. The new system, which the chain said is already paying dividends, has apparently had a profound effect on job responsibilities in the buying division.

The new restructuring will enable Kmart buyers to listen better today and better understand the corporate direction.

"The job of the buyer is to travel the world markets and procure merchandise," explained Underwood. "We can be first with the better quality product."

Underwood and Schuvie noted that Kmart is still addressing the many changes within the scope of the merchandising department. "We are eliminating confusion from the buyer up to the divisional," said Schuvie. "If a buyer needs additional support, we can provide it. A buyer has to be able

(Continued on page 85)

Stuarts Avoids Chap.7, Credit Ok'd

By Jill Lettich

FRANKLIN, Mass. — Stuarts has survived another round.

The regional discounter received approval on a revolving credit line of $10 million in a hearing before Judge F. Queenan Jr., in bankruptcy court. At the same hearing, a motion for liquidation filed by Stuart's "Official Committee of Unsecured Creditors" was "emphatically denied," by the court, said chain president Joseph Ettore.

Stuarts filed for Chapter 11 reorganization on Dec. 7 after Shawmut Bank N.A. declined to make further advances under its credit agreement with Stuarts.

In late January, the creditors committee filed a motion to convert the Chapter 11 reorganization to a Chapter 7 liquidation. The committee is composed of five manufacturers/distributors (Gitano, Hasbro, Mill Brook Distributors, Schrieber & Co. and Zamoiski Co.), five factors (Republic Factors Corp., Heller Financial Inc., Citizens & Southern Commercial Corp., CIT Group Factoring and BNY Financial Corp.), and Shawmut.

The lender of the current $10 million in debtor-in-possession financing is First American Bank of New York. This credit line, along with the company's current cash position of over $20 million is suffi-

(Continued on page 86)

FTC Issues First RPM Complaint Since 1981

By Ken Rankin

WASHINGTON — In a move that may signal a welcome shift in government antitrust enforcement priorities, the Federal Trade Commission issued its first formal resale price maintenance complaint in more than a decade.

Although the action is likely to have little direct impact in discount stores—FTC's complaint was targeted at the manufacturer of an automatic swimming pool cleaning device—indirectly the case may signal a resumption of federal efforts to protect retailers from anti-competitive price-fixing conspiracies.

While resale price maintenance has been considered a per se or automatic violation of the nation's antitrust laws for the past 80 years, federal efforts to curb these practices were halted abruptly under the Reagan administration.

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TOY MERCHANDISING

Toy Manufacturers Look Ahead to Shaky '91

Vendors Will Struggle to Maintain Sales As Consumers Have Fewer Stores to Shop

By Richard Halverson
Nationwide DSN Report

For toy manufacturers, 1990 was a difficult year, with estimated sales gains of 2% to 3%—or flat after adjustment for inflation.

As a prime indicator of the kind of year it was, Toys "R" Us, king of the hill in toy retailing, reported a 6% decline in same store sales for the Christmas season.

And with retailers closing hundreds of stores, manufacturers face a special problem in 1991: how to maintain sales volume with far fewer retail outlets for their goods.

One sign of comfort: Nintendo, blamed for siphoning sales from conventional toys, fell short of its sales goal of $4.1 billion last year. Sales rose only 26% to $3.4 billion in 1990 from $2.8 billion in 1989, leading toy makers to believe that it has peaked.

This year will be one of questionable financial stability for a number of both toy manufacturers and retailers, according to George Ditomassi, chairman of Toy Manufacturers of America. Toy sales were soft last year in a soft economy, said Ditomassi, also chairman of the Milton Bradley division of Hasbro. "It was a difficult year," he said.

A number of retailers are having trouble paying their bills, among them Child World, which suspended payments to both vendors and lenders prior to Christmas, and Best Products, which declared Chapter 11 Jan. 4, sticking a number of its vendors with unpaid bills and adding to the problems of Fisher-Price.

In addition, a number of retailers are closing stores or going out of business: Hills, for example, is closing 28 stores, or 12.8% of its units; Stuarts declared Chapter 11 bankruptcy and closed three of 23 stores; David Weiss, liquidated all 18 of its catalog showrooms; W. Bell, another cataloger, declared Chapter 11 and closed 10 of 20 showrooms; Sky City liquidated, closing 55 stores (see story, *DSN*, Jan. 21, 1991).

"Manufacturers will have to deal with having fewer retail outlets," Ditomassi said.

In the main, the toy industry isn't homogeneous, said Mannie Girard, a principal of Girard Klauer Mattison & Co., a New York institutional research firm. Instead, toy makers are product based, he said, and when they have hit toys, they do well.

Lewis Galoob, for example, had a terrible year because its 1989 hit, Micro Machines, "got killed," Girard said.

Galoob expects to suffer a "substantial operating loss" for the year, having racked up operating losses of $14.6 million through Sept. 30, 1990 compared to profits of $20.5 million in the first three quarters of 1989. Year-end company figures were unavailable at presstime.

While the TMA won't release its 1990 industry sales report until the Toy Fair on Feb. 11, it is estimated that retail toy sales grew about 3% to $13.81 billion last year.

On the other hand, Playmates, which had tremendous success with Teenage Mutant Ninja Turtles, logged what it calls a "fantastic year" in 1990, estimating sales of about $400 million.

With their lines of basic toys, Mattel, Hasbro and Tyco all did well last year (see chart).

While Mattel barely edged out Hasbro in sales through Sept. 30, it stands heads and shoulders above in operating profit, with a 30.6% gain to $150.7 million on sales of $1.04 billion. In comparison, Hasbro's operating profits fell 10% to $108.8 million on sales of $1.03 billion.

Tyco is having a good year, a spokesman said, although operating profits fell 22.1% on a 27.6% sales gain for the nine months.

LEGO Systems enjoyed another record year, claiming a sales gain of about 15% for the second year in a row. As a private company, LEGO releases neither sales nor earnings.

Little Tikes, a division of Rubbermaid, is fast closing on Hasbro's Playskool division as the second largest maker of preschool toys. It recorded sales of around $300 million in 1991.

"Several manufacturers are entering 1991 less healthy than they were in 1990," Ditomassi said. None, however, appear close to Chapter 11 bankruptcy, he added.

Besides Galoob, Tonka, Fisher-Price—the third largest toy maker after Hasbro and Mattel—and Matchbox are struggling.

Fisher-Price, a division of Quaker Oats, is running into difficulty with its restructuring. Tonka is suffering from two factors: paying the interest on $455 million in debt taken on in 1987 to acquire Kenner and Parker Bros., as well as a 59.5% slump in operating earnings through the first nine months of 1990.

Fisher-Price has slashed employment 40% over the past three years to 6,000 employees from 10,000. Quaker Oats intends to spin off Fisher-Price to its stockholders during the first quarter so it is treating it as a discontinued operation.

In the latest round of cutbacks, intended to shrink F-P to the size of its business, Quaker Oats announced last month it will close two of four distribution centers and fire 110 headquarters staffers.

Last year it closed two of eight plants, firing 1,200.

In its first quarter of fiscal 1991, ended Sept. 30, 1990, Fisher-Price lost $12.7 million from operations, compared to profits of $28.9 million a year earlier. Sales for the quarter plunged 32.6% to $153.2 million from $227.5 million. The July-September period traditionally is the best for toy manufacturers.

Tonka sustained a net loss of $25.4 million for its first nine months, a worsening of the $4.4 million net loss in the same span of 1989. Interest on debt assumed to acquire Kenner and Parker Bros.—along with a slump in sales—explains the loss.

In more bad news, Moody's just cut its investment rating on $331 million of Tonka's long term debt to Caa, the lowest speculative grade. For the move, Moody's cited Tonka's "deteriorating financial position and weak earnings outlook," as well as "the poor outlook for the toy industry."

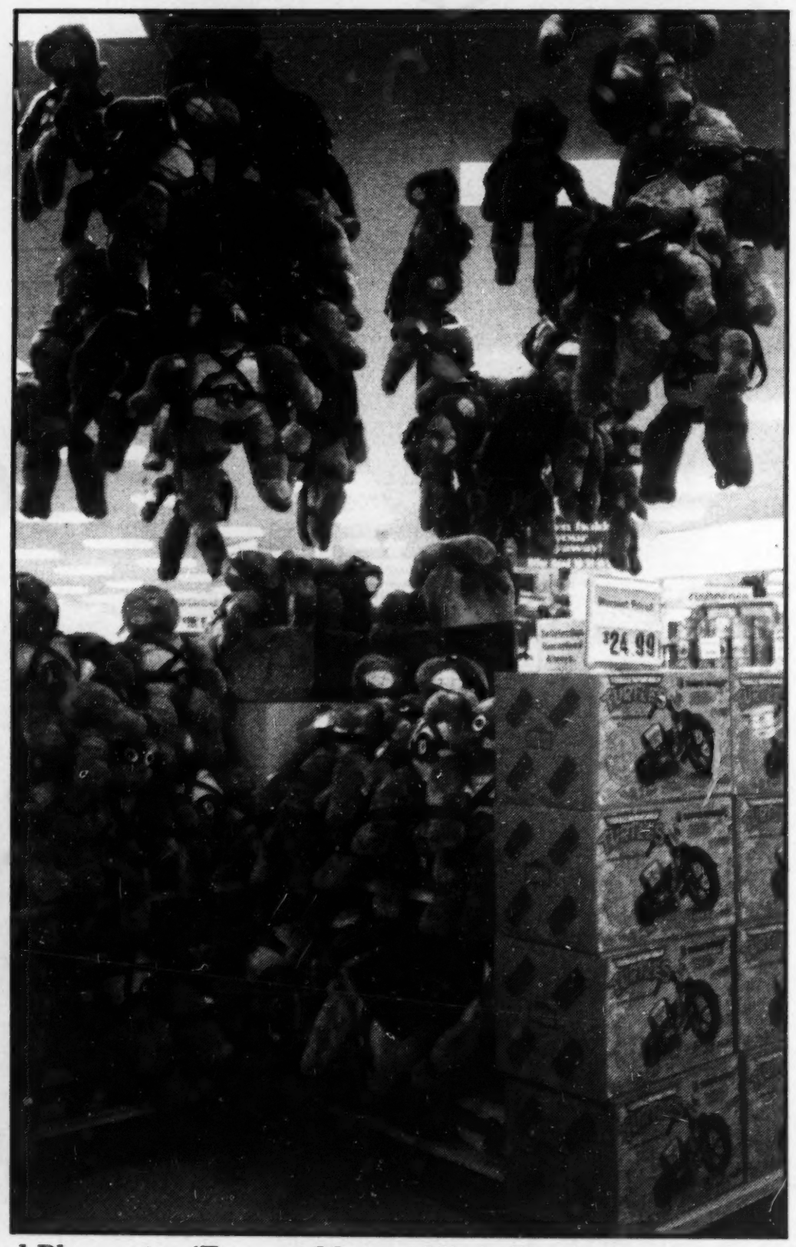
Matchbox sustained an operating loss of $35,000 for its first nine months last year, compared to a $2.9 million profit in 1989. Sales sagged 10.5% to $140 million from $156.6 million.

Toy Manufacturer Sales, Profits
(In Millions)

	Sales, 9 months ended Sept 30			Operating Profits, 9 months		
	1989	1990	% Chg.	1989	1990	% Chg.
Mattel	$877.6	$1,042.4	18.8%	$115.4	$150.7	30.6%
Hasbro	992.7	1,027.2	3.5	121.5	108.8	−10.6
Fisher-Price	884.8[1]	702.6[1]	−16.8	89.6[2]	(96.2)	NA
Tonka	625.8	541.3	−13.5	86.6	35.0	−59.6
Tyco	268.9	343.1	27.6	22.6[4]	17.6[4]	−22.1
Matchbox	156.6	140.0	−10.6	2.9	(0.4)[5]	NA
Galoob	169.6	105.4	−37.8	20.5	(14.6)[6]	NA

[1]12 months, for fiscal year ended June 30.
[2]12 month pretax profits, fiscal year ended June 30.
[3]12 month pretax loss, fiscal year ended June 30.
[4]Earnings before income taxes.
[5]Operating loss of $35,000.
[6]Operating loss.
NA — Not available.
( ) — Loss.

Source: corporate sales and earnings reports



***Among the top toy makers** last year were Mattel (Barbie) and Playmates (Teenage Mutant Ninja Turtles).* (DSN photos)

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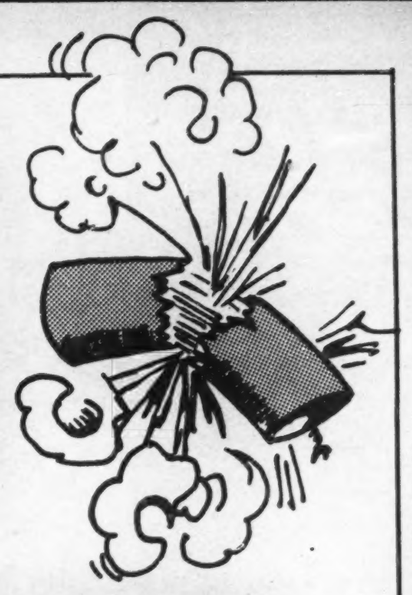

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Retailers Look For New Niche They Can Toy With

(Continued from page 1)

Retailers like Hills and Stuarts, even with their much publicized financial woes, recorded comp store toy increases of 11% and 7%, respectively, last year as a result of their carefully crafted plans.

Hills focuses consumer attention on selection, image, perception and price, an important mix of attributes, said Fred Hurley, divisional merchandise manager of toys and juvenile products at the Canton, Mass.-based chain. The toy department typically averages 6,500 square feet, larger than many specialty stores.

"The company strategy is to attract women using children's categories, stressing Hills is a place for kids and making it convenient to shop" for a range of products including the most recognized toys in the business, said Hurley.

Stuarts, although in Chapter 11, had a "sensational year" in toys in 1990, said Phil Brescia, toy buyer for the Hopkinton, Mass.-based chain. Said Brescia: "We picked our spot and went after a few things."

"Mass merchants need to pick the 100 to 200 key items on TV, have them and do it your way," contends Brescia. For retailers, in particular, the advantage of being able to leverage the chain's broad range of products, high in-stock position and image are vital to successfully competing with TRU, Miller noted.

A discounter's loyal consumer base is its best asset, observed Jim Pressman, president of Pressman Toy Corp. Retailers such as Wal-Mart and Target, while having a smaller selection of toys than Toys "R" Us, have been aggressive in carving out a piece of the pie. He noted that in some cases the two have cut prices on some hot toys to below TRU's everyday low price, driving traffic into the discount stores. Once there, the discounters' strong positions in categories such as adult games or kids' action games have been exploited.

In fact, a not-yet-released study, conducted for *DSN* on Target's new Greatland superstore, shows that shoppers at the new Apple Valley, Minn., Greatland view its toys department as being distinctly stronger compared to available competitive outlets.

Kmart has long observed the changing toy scene and determined that it would beef-up its toy department after eight years of operating a more modest program. In fact, Kmart has identified toys as a power department and part of its lifestyle retailing focus.

Unquestionably, TRU's biggest strength is its marketing program that hammers home the message to consumers that it has all the toys they could think of at the best possible price. Its warehouse format emphasizes those points.

Any retailer looking to compete head-on with TRU on price is sure to lose, sources stress, since its huge buying capabilities will always undermine margins at lesser retailers. Being forced to play TRU's game its way, without its strengths, is certain failure, most contend.

Tons of Toys, operators of Karl's Toys, Toys Plus and Toys Galore toy stores, has set itself on a path that distinguishes it from Toys "R" Us, Kay-Bee and Toy Liquidators.

Focusing more attention on special services such as layaway and gift wrapping plus the chain's new hobby department, are intended to distinguish Tons of Toys from the competition, said Bruno Ferretti, president of the 51-unit bicoastal toy chain.

Ten years ago, Ferretti said he thought that the best way to compete with TRU was to be like it, only smaller. Now he wants TOT to be a little different, offering customers something the others don't.

In addition, last fall TOT started Toytropolis, an upscale leased toy department in a Seattle Bon Marche department store.

In fact, Ferretti thinks now may be the time for toy departments to re-enter department stores in selected areas.

Creating a format entirely different from TRU has even affected troubled Child World. The Avon, Mass.-based chain has been seeking to distinguish itself from the pack with its prototype that boasts a lively new layout, special services, including some bilingual sales associates, and a tight product mix.

And, the Melville Corp.-owned Kay-Bee chain's new Toy Works concept is an attempt to leverage its mall store strengths in a freestanding, wide aisle store format.

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